WESTERN DEPARTMENT STORES

REPORT
to
STOCKHOLDERS

January 31, 1952

Stores operated:

OLDS & KING	KAHN'S	RHODES
Portland	Oakland	Tacoma
Est. 1851	Est. 1879	Est. 1892

WESTERN DEPARTMENT STORES

A California Corporation — Incorporated in 1937

BOARD OF DIRECTORS

Harold V. Boggs
R. L. Childs
Herbert E. Clayburgh
Herbert I. Dunn
John J. Goldberg
Elliott McAllister
John J. Reilly
John J. Reilly, Jr.
F. A. Wickett

OFFICERS

John J. Reilly	*President*
Herbert E. Clayburgh	*Vice-President*
John J. Reilly, Jr.	*Vice-President and General Merchandise Manager*
Harold V. Boggs	*Vice-President and Manager of Kahn's*
Harry A. D. Smith	*Vice-President and Manager of Olds & King*
A. K. Humble	*Assistant Secretary and Manager of Rhodes*
R. L. Childs	*Secretary and Treasurer*
John J. Goldberg	*Assistant Secretary*
J. B. Monnette	*Assistant Secretary*
H. W. Rheubottom	*Assistant Treasurer*

LEGAL COUNSEL

Jesse H. Steinhart

PUBLIC ACCOUNTANTS

Price Waterhouse & Co.

TRANSFER AGENT

The Anglo California National Bank
of San Francisco
No. 1 Sansome Street
San Francisco 20, California

REGISTRAR

Wells Fargo Bank & Union
Trust Co.
Montgomery and Market Streets
San Francisco 4, California

Annual Stockholders' Meeting	Oakland, California, Tuesday, May 27, 1952, 11:00 o'clock A.M.
Executive Offices	1501 Broadway, Oakland, California (Kahn's Department Store)

Oakland 12, California
May 1, 1952

To the Stockholders of
Western Department Stores:

Submitted herewith are financial statements of your corporation for the fiscal year ending January 31, 1952, examined and reported upon by our independent auditors, Price Waterhouse & Co. These statements reflect the operation by the corporation of its three department stores: Kahn's, Oakland, California; Olds & King, Portland, Oregon; and Rhodes, Tacoma, Washington.

Sales for the year were $31,235,815 compared with $31,920,611 in the previous year, a reduction of 2.1%.

Net income was $1,053,534, equal to $1.52 per share, compared with net income of $1,571,770, equal to $2.27 per share in the previous year, computed on the number of shares outstanding after giving effect to the two for one stock split effective December 10, 1951. (Prior year's income as previously reported has been re-stated to reflect the reinstatement of inventory pricing method from LIFO to the method consistently followed by the company prior to February 1, 1950—see Note 1 to financial statements for details.) Principal reasons for lower earnings than the previous year were higher operating expenses and increase in tax rates.

As reported to you in the previous year, the corporation applied the LIFO method of inventory valuation for accounting purposes to a substantial portion of the inventories at January 31, 1951, but deferred decision to adopt this method for income tax purposes. After considerable investigation and careful study decision was made late in 1951 not to adopt the LIFO method.

Merchandise inventories on January 31, 1952, including goods in transit, were $3,670,041 compared with $4,040,128 (restated) on January 31, 1951.

Working capital of the corporation at the end of the year was $7,266,887, compared with $7,061,179 (restated) at the end of the previous year. The ratio of current assets to current liabilities was 3.67 to 1, compared with 3.10 to 1 the previous year.

Customers Accounts Receivable at the end of the year were $4,137,597 compared with $4,856,791 at the end of the previous year.

The corporation continued quarterly dividends at the rate of 40¢ per share (20¢ per share after the stock split) and a dividend of 20¢ was paid April 1, 1952.

In accordance with provisions of the corporation's Profit-Sharing Retirement Plan, the corporation contributed for the past fiscal year $123,892, compared with $180,130 for the previous year. At January 31, 1952 there were 950 employees participating in the Plan, which is over 95% of the total number of employees eligible to participate.

Early last year arrangements were made for installation of escalators in the Rhodes store, Tacoma. We are pleased to announce that the installation was completed and opened to the public on March 31, 1952, in time for the Easter season. Escalators run from the first floor to the fifth floor. Each of the three stores now has modern escalator operation.

Our appreciation is expressed to all of our employees for their cooperation during the past year.

Notice of Annual Meeting of Stockholders and form of Proxy are enclosed. We hope you will attend; however, if you cannot be present, we will appreciate your completing and forwarding your proxy.

For the Board of Directors
John J. Reilly, *President.*

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BALANC[...]

(See accompanying note[...]

ASSETS

	January 31 1952	January 31 1951
Current Assets:		
Cash in banks and on hand	$ 2,048,046	$ 1,599,938
Accounts receivable:		
Customers	$ 4,137,597	$ 4,856,791
Other receivables and claims	295,718	72,802
	$ 4,433,315	$ 4,929,593
Less—Provision for doubtful accounts	164,171	151,049
	$ 4,269,144	$ 4,778,544
Inventories of merchandise (Note 1)	3,670,041	4,040,128
Total current assets	$ 9,987,231	$10,418,610
Miscellaneous Investments, Deposits and Advances:		
Store repairs and improvements, recoverable from lessor	$ 119,736	$ 138,274
Investments (at cost) and insurance and other deposits	52,356	52,906
	$ 172,092	$ 191,180
Properties, at cost:		
Buildings, furniture and fixtures, etc.	$ 2,021,426	$ 1,674,033
Leasehold and improvements to leased buildings	3,250,853	3,195,965
	$ 5,272,279	$ 4,869,998
Less—Accumulated depreciation and amortization	2,104,147	1,923,502
	$ 3,168,132	$ 2,946,496
Land	51,500	51,500
	$ 3,219,632	$ 2,997,996
Unexpired Insurance, Prepaid Taxes and Other Deferred Expenses	$ 281,459	$ 337,741
	$13,660,414	$13,945,527

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LIABILITIES

			January 31	
			1952	1951
Current Liabilities:				
Accounts payable			$ 1,366,121	$ 1,650,869
Payrolls, taxes and other accrued liabilities			735,081	926,769
Federal taxes on income, estimated			1,069,142	1,379,793
Less—United States Treasury Savings Notes—Tax Series C			(600,000)	(600,000)
Note payable to bank—instalment due January 1 1953 (Note 2)			150,000	
			$ 2,720,344	$ 3,357,431
Note Payable to Bank (Instalments due after one year) (Note 2)			$ 1,000,000	$ 1,150,000
Employees' Subscription to Five Year Convertible Notes (Note 4)			$ 2,497	
Capital and Surplus:				
Capital:				
Common stock (Note 5):	Jan. 31 1952	Jan. 31 1951		
Par value per share	$0.25	$0.50		
Shares authorized	1,200,000	600,000		
Shares issued	702,728	351,364		
Less—In treasury	10,000	5,000		
Outstanding	692,728	346,364	$ 175,682	$ 175,682
Excess of par value of 6% cumulative convertible preferred stock over par value of common stock issued in exchange therefor			1,610,040	1,610,040
Stated capital			$ 1,785,722	$ 1,785,722
Excess of proceeds from sale of convertible notes over par value of common stock issued upon conversion			240,350	240,350
Earned surplus since reorganization, April 8 1937 (Notes 1 and 2)			7,911,501	7,412,024
			$ 9,937,573	$ 9,438,096
			$13,660,414	$13,945,527

WESTERN DEPARTMENT STORES

STATEMENT OF INCOME AND EARNED SURPLUS

	Year ended January 31	
	1952	1951
Net sales, including leased departments	$31,235,815	$31,920,611
Less—Sales of leased departments	4,633,364	4,831,266
	$26,602,451	$27,089,345
Cost of merchandise sold (Note 1)	17,465,173	17,393,110
Gross profit—owned departments	$ 9,137,278	$ 9,696,235
Gross income from leased departments	612,480	625,700
Adjustments of provisions for depreciation, bad debts, etc., for prior years, less related federal taxes on income		48,239
Other income and credits	148,743	238,984
	$ 9,898,501	$10,609,158
Selling, general and administrative expenses	$ 7,525,230	$ 7,384,592
Contribution under profit sharing retirement plan	123,892	180,130
Provision for depreciation and amortization	186,785	165,088
Interest expense	39,060	36,078
	$ 7,874,967	$ 7,765,888
	$ 2,023,534	$ 2,843,270
Provision for estimated federal taxes on income:		
Income taxes	$ 1,035,000	$ 1,183,500
Excess profits tax	(65,000)	88,000
	$ 970,000	$ 1,271,500
Net income for year (Note 1)	$ 1,053,534	$ 1,571,770
Unappropriated earned surplus at beginning of year	7,412,024	5,894,308
Restoration of amount appropriated in prior years for possible future decline of inventory values		500,000
	$ 8,465,558	$ 7,966,078
Dividends paid in cash, $1.60 per share (50¢ par value)	554,057	554,054
Earned surplus at end of year (accumulated since reorganization, April 8 1937) (Notes 1 and 2)	$ 7,911,501	$ 7,412,024

WESTERN DEPARTMENT STORES

NOTES TO FINANCIAL STATEMENTS

JANUARY 31 1952

NOTE 1—Inventories:

The inventories at January 31 1952 have been priced at cost as determined by the retail inventory method with respect to merchandise on hand and cost not in excess of market with respect to merchandise in transit, which is the basis consistently employed by the Company for prior years excepting the year ended January 31 1951 when a substantial portion of the inventories was priced on the basis of the last-in, first-out ("Lifo"). The figures previously reported for the year ended January 31 1951 have been restated to reflect the reinstated retail method of pricing, as follows:

	Net income for year ended January 31 1951	Special credit for year ended January 31 1951	Inventories, January 31 1951	Earned surplus, January 31 1951
Amounts previously reported	$1,314,606	$128,729	$3,911.693	$7,283,589
Excess of inventories at January 31 1950 as computed on Lifo basis over amount computed on reinstated basis	128,729	(128,729)		
Excess of inventories at January 31 1951 as computed on reinstated basis over amount computed on Lifo basis	128,435		128,435	128,435
As adjusted	$1,571,770	—	$4,040,128	$7,412,024

NOTE 2—Note payable:

The balance of the note is payable in annual installments on January 1 of $150,000 in 1953 (included in current liabilities) and $200,000 each in years 1954 to 1958, inclusive. The loan agreement with the bank provides that, without the prior written consent of the bank, the Company will not declare or pay any dividends except from earnings subsequent to January 31 1947. The undistributed earned surplus since that date amounted to $3,852,591. The Company also covenants that during the term of the loan it will not permit its net current assets to decline below $3,000,000 or its ratio of current assets to current liabilities to be less than two to one.

NOTE 3—Long-term leases:

Leases for two of the stores expire in 1975; they provide for rentals computed as a percentage of sales, subject to a minimum annual rent. The lease for the third store, expiring in 1972, provides for a flat monthly rental plus real estate taxes in excess of a specified amount until 1957 and thereafter percentage rentals, subject to a minimum annual amount. The minimum rental obligation under these leases and the total amount of rent and other charges paid thereunder for the year ending January 31 1952 were $493,500 and $766,304, respectively.

NOTE 4—Five Year Convertible Notes:

During 1951, certain officers and executive employees were granted the right to purchase at face value Five Year Convertible Notes in an aggregate amount not in excess of $110,000 face value. The subscription agreements provide that at least 1/60th of the purchase price shall be paid on execution of the agreement and at least 1/5th of the balance shall be paid annually thereafter; the agreements are not transferable. On termination of employment, amounts paid by employees are refundable and all rights under the agreements cease. The Five Year Convertible Notes are to be issued when the full subscription price has been received, will bear interest at 3% per annum from date of issuance, and will mature May 1 1956; the notes are convertible at any time on or before maturity, at the option of the holder during the continuance of his employment, into common stock in the ratio of 10 shares of stock for each $110 of face value.

At January 31 1952, subscription agreements had been executed for $96,800 principal amount of notes, of which $94,303 remained to be collected. Amounts paid on the subscriptions bear interest at the rate of 3% per annum.

NOTE 5—Capital stock:

At a meeting held October 26, 1951, the stockholders authorized an increase in authorized common stock from 600,000 shares to 1,200,000 shares, a decrease in the per share par value from $0.50 to $0.25, and a two-for-one stock split. No change in the aggregate amount of capital represented by the outstanding shares of common stock of the Company and no change in the Company's surplus accounts resulted from the stock split.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
WESTERN DEPARTMENT STORES:

In our opinion, the accompanying financial statements, together with the notes thereto, present fairly the position of Western Department Stores at January 31 1952 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles. These accounting principles were applied on a basis consistent with that of the preceding year except for the change, which we approve, in basis of pricing inventories, explained in Note 1 to the financial statements. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

San Francisco
March 31 1952